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UNITED DRUG, INC.

ANNUAL REPORT

December 31, 1943

MAB
CORP. FILE

OFFICERS

Joseph A. Galvin	*Chairman of the Board*
Justin W. Dart	*President*
Attilla C. Bond	*Vice-President*
William F. Davis, Jr.	*Vice-President*
Edward J. Griffing	*Vice-President*
F. Thatcher Lane	*Vice-President*
Eric Nicol	*Vice-President*
Norman L. Vermilya	*Vice-President*
Irving W. Smead	*Vice-President and Treasurer*
Harold E. Price	*Secretary*

DIRECTORS

Charles Francis Adams	Boston
Earl E. Anderson	New York
William R. Basset	Greenwich, Conn.
Justin W. Dart	Boston
William F. Davis, Jr.	Boston
George M. Gales	New York
Joseph A. Galvin	Boston
Edward J. Griffing	Boston
George C. Haigh	E. Stroudsburg, Penn.
F. Thatcher Lane	New Haven, Conn.
Charles S. Munson	New York
James L. Richards	Boston
Fred S. Rogers	Middletown, N. Y.

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Transfer Agents

For UNITED DRUG, INC.

Guaranty Trust Company of New York, New York

State Street Trust Company, Boston

For UNITED DRUG COMPANY

The Commercial National Bank and Trust Company of New York, New York

Registrars

The Chase National Bank of the City of New York, New York

The National Shawmut Bank of Boston, Boston

J.P. Morgan & Co. Incorporated, New York

Counsel

Gaston, Snow, Rice and Boyd, Boston

Root, Clark, Buckner and Ballantine, New York

March 11, 1944

To the Stockholders of United Drug, Inc. and United Drug Company:

SALES

Consolidated sales volume of $138,913,407 for 1943 was the largest in the history of United Drug, Inc., comparing with $121,997,977 in 1942. The increase of $16,915,430 was at the rate of 13.9 per cent. Sales in 1941 were $102,460,960.

EARNINGS

For the year ended December 31, 1943, the consolidated net income of United Drug, Inc. and its subsidiaries amounted to $2,610,650 after providing for depreciation, bond interest, loss on guaranteed leases, Federal and Canadian income and excess profits taxes, reserves and other charges. From this amount, dividends of $225,625 on the $4.75 preferred stock of United Drug Company were deducted, leaving $2,385,025, or $1.70 per share applicable to the capital stock of United Drug, Inc. This compares with $1.64 per share for 1942.

COMPARATIVE SUMMARY OF CONSOLIDATED INCOME

	1943	1942
1. We earned a consolidated net operating profit of	$13,881,103	$11,333,472
2. To which we added investment and interest income, etc.	127,250	75,176
	$14,008,353	$11,408,648
3. From which we deducted:		
(*a*) Additions to General Reserves	335,000	300,000
(*b*) Reserve for possible losses incident to postwar reconstruction of retail store chains	500,000	500,000
(*c*) Interest paid on funded debt	1,350,332	1,603,641
(*d*) Loss on operations of guaranteed leases	124,824	283,958

(e) Cancellation or modification of certain guaranteed leases	1,386,000	1,160,546
(f) Federal and Canadian income and excess profits taxes	7,450,000	5,150,000
(g) Miscellaneous	251,547	109,273
4. Total Non-operating Deductions	$11,397,703	$ 9,107,418
5. Leaving a Net Profit of	2,610,650	2,301,230
6. Preferred Stock Dividends paid or declared by United Drug Company (subsidiary)	225,625	...
7. Profit applicable to capital stock of United Drug, Inc.	$ 2,385,025	$ 2,301,230
8. EARNINGS PER SHARE	$1.70	$1.64

WORKING CAPITAL

Current assets as of December 31, 1943, totaled $50,665,080, including cash, marketable securities and U. S. Government Securities in the amount of $15,837,214. Current liabilities were $17,972,425, leaving net working capital of $32,692,655, an increase of $2,745,050 during the year.

SURPLUS

Earned surplus as shown on the consolidated balance sheet of December 31, 1943, amounted to $12,096,456, compared with $13,303,619 a year earlier. Among the charges to surplus during 1943 were amounts totaling $303,933, after Federal Income Taxes, for premium on the old issue of 5% debentures of United Drug Company and certain other expenses of refinancing, and $3,300,000 for partial write-off of goodwill, reducing that item to $3,000,000 as against an amount of $10,401,169 in 1933.

GUARANTEED LEASES

During the year, the most burdensome of the guaranteed leases remaining was cancelled at a cost of $1,386,000 which was charged to earnings as a business expense. Exclusive of this payment and others made in 1942 to cancel or modify other of the guaranteed leases, the operating loss from such leases for the year was $124,824, compared with $283,958 in 1942.

CASH POSITION

At the year-end, cash, marketable securities, and U. S. Government Securities totaled $15,837,214, from which approximately $6,700,000 will be paid to the U. S. and Canadian Governments for income and excess profits taxes.

Of course, it took more money to do $138,000,000 in business in 1943 than it did to do $121,000,000 in 1942. Inventories increased approximately $5,000,000 during the year. That figure is $2,600,000 more than the net earnings for the period.

PROPOSED CASH OUTLAYS

Looking ahead, we are confronted with the necessity of making substantial cash outlays to carry out many essential projects, some of which have already been begun. Among the more important of these are the following:

1. All drug manufacturing activities of your company — now divided between Boston and St. Louis — are to be consolidated at St. Louis. This will cost a considerable amount of money, but will produce substantial economies and increased efficiency.
2. We have a program of store rehabilitation which is absolutely essential if your company is to maintain its competitive position.
3. Many of your factories will have to be brought up to date if we are to produce on a favorable basis.
4. The drug industry is expected to take up, or in self-defense must absorb, surpluses of war materials which can be used in our plants or sold through our stores. We must be in a position to handle our share.
5. We plan to extend materially our laboratory and research facilities and ethical products development. Our volume in the ethical field is more substantial than many of our shareholders probably realize. It has prompted us to proceed vigorously in this direction, and in this connection one important step will be the installation of a modern pilot plant for the development of new products and improved methods of manufacturing.

DIVIDEND POLICY

The sales and earnings record of your company having been good over the past two years and other evidences of improvement shown, it is but natural

that some shareholders have asked when a resumption of dividends on the capital stock of United Drug, Inc. may be expected. This is a matter on which your management will speak frankly. Shareholders, management and directors all have the same objective — to strengthen our company in every possible way, taking advantage of present favorable business conditions, so as to safeguard its future. We believe that cash resources have been better employed during the past two years toward that end than by paying some amount in dividends.

The necessities for future cash outlays have already been enumerated. It is the opinion of your directors and your management that most of these expenditures should come out of current and future earnings; and, therefore, that the time for embarking on a dividend program is not yet in sight.

REFINANCING

One of the most important developments in the history of United Drug, Inc. was the refinancing of the funded debt of its subsidiary, United Drug Company, successfully carried through last August. The then outstanding $30,243,200 of 5% debentures due 1953 were redeemed and new securities issued — $20,000,000 3¼% debentures due 1958, and $10,000,000 $4.75 preferred stock. The cost, before tax saving, of this operation, including the three-point premium to retire the old bonds, was $1,368,555.

The approximate effect of this refinancing was as follows:

1. Bond interest requirements prior to the refinancing were $1,500,000 plus per year.
2. Interest requirements after refinancing on the new bonds are $650,000 per year.
3. Sinking fund requirements on the old bond issue were $750,000 per year.
4. Sinking fund requirements on the new bond issue are $667,000 per year.
5. Dividend requirements for the new Cumulative Preferred stock are $475,000 per year.

Note: In any year after May 1, 1944, a purchase fund not to exceed $250,000 will be set aside from surplus to purchase and retire such Preferred stock as may be available for purchase at $100 per share or less.

CONCLUSION

In addition to the Annual Report of United Drug, Inc., the report of its principal subsidiary, the United Drug Company, is included. This is done because the Preferred stock issued in 1943 was issued by United Drug Company.

In common with industry generally, wartime restrictions with respect to materials, merchandise and manpower have made our operations difficult. However, it has been the constant objective of your management and directors to plan for and to prepare your company for the future, which we approach with confidence and optimism.

The employees of your company have carried the extra burden imposed by the war—faithfully and willingly. We are deeply grateful for their cooperation.

Respectfully submitted,

J. W. DART, *President*
UNITED DRUG, INC.

J. A. GALVIN, *President*
UNITED DRUG COMPANY

PRICE, WATERHOUSE & CO.

75 FEDERAL STREET
BOSTON 10

March 6, 1944

To the Board of Directors
of United Drug, Inc.:

We have examined the consolidated balance sheets of United Drug, Inc. and its subsidiary companies and of United Drug Company and its subsidiary companies as of December 31, 1943 and the related consolidated statements of profit and loss, earned surplus and capital surplus for the year ending on that date. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary, including the verification of the cash in banks through certificates obtained from the depositaries, inspection or confirmation of the securities, observations and test counts of the inventories and test confirmations of the receivables by correspondence with debtors other than certain U. S. Government departments. It was found to be impracticable to obtain confirmation of receivables from U. S. Government departments, but we satisfied ourselves by other means as to these balances.

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of profit and loss, earned surplus and capital surplus, with the accompanying notes to financial statements, present fairly the consolidated position of United Drug, Inc. and its subsidiary companies and of United Drug Company and its subsidiary companies at December 31, 1943, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent, in all material respects, with that of the preceding year.

PRICE, WATERHOUSE & CO.

UNITED DRUG, INC. AND

CONSOLIDATED BALANCE S

(WITH COMPARATIVE FIGURE

ASSETS

	December 31, 1943	1942
CURRENT ASSETS:		
Cash in banks and on hand	$11,203,381	$12,099,820
United States Treasury Notes, tax series (*cost and face amount*)	4,000,000	2,000,000
Marketable securities and call loans (*value based on market quotations, approximately $689,000 in 1943 and $684,000 in 1942*)	633,833	648,953
Customers' accounts and notes receivable (*including $513,949 in 1943 and $916,352 in 1942 owing from United States Government departments*), less reserves of $575,594 in 1943 and $564,314 in 1942	4,979,650	5,088,743
Miscellaneous accounts and notes receivable	695,348	434,042
Inventories of merchandise, partly-finished stocks, materials and supplies — at cost or market whichever lower (*Note 3*)	29,152,868	24,133,877
TOTAL CURRENT ASSETS	$50,665,080	$44,405,435
INVESTMENTS AND ADVANCES, ETC.:		
Customers' non-current notes receivable and advances, less reserves	$ 50,003	$ 121,968
Miscellaneous advances, notes, claims and deposits, less reserves (*including $59,383 in 1943 and $57,708 in 1942 owing from employees, and including $7,697 in 1943 and $121,889 in 1942 owing from an affiliated company*)	246,418	324,852
Investments in and advances to wholly-owned English and South African subsidiaries, not consolidated (*book value of underlying net assets expressed in U. S. dollars, $496,263 in 1943 and $466,589 in 1942 — Note 2*)	331,211	330,007
Miscellaneous investments, at or below cost, less reserves (*including investment of doubtful value in an affiliated company, carried at a nominal amount of $1*)	201,899	201,566
	$ 829,531	$ 978,393
PROPERTY ACCOUNTS — at cost, written down amounts, or appraisal valuations (*including store fixtures and improvements of retail companies at appraisal valuations determined in 1933, as approved by the directors, plus subsequent additions at cost*):		
Land, buildings and building fixtures	$ 8,956,099	$ 9,101,332
Machinery and equipment, etc.	8,682,298	8,608,360
Store fixtures and improvements, etc.	12,189,523	12,068,272
	$29,827,920	$29,777,964
Less — Reserves for depreciation	16,078,403	15,173,535
	$13,749,517	$14,604,429
DEFERRED CHARGES:		
Prepaid insurance, taxes, rent, etc. and advertising supplies	$ 687,208	$ 943,334
Unamortized expense on 3¼% debentures of United Drug Company	131,639	...
	$ 818,847	$ 943,334
GOODWILL, TRADE-MARKS, ETC. (*Note 4*)	$ 3,000,000	$ 6,300,000
	$69,062,975	$67,231,591

(Reference is made to the accompan

SUBSIDIARY COMPANIES

HEET — DECEMBER 31, 1943

(S AS AT DECEMBER 31, 1942)

LIABILITIES

	December 31, 1943	December 31, 1942
CURRENT LIABILITIES:		
Accounts payable (*trade, etc.*) and accrued expenses	$10,052,601	$ 8,671,416
Real estate purchase obligations, maturing within one year	7,696	7,322
Accrued interest on debentures	263,697	444,777
Sinking fund payment due May 1, 1944 on 3¼% debentures of United Drug Company, less redemption value of treasury debentures available therefor	143,500	...
Preferred stock dividend payable February 1, 1944	118,750	...
Reserves for estimated Federal and Canadian income and excess profits taxes (*Note 5*)	7,386,181	5,334,315
TOTAL CURRENT LIABILITIES	$17,972,425	$14,457,830
REAL ESTATE PURCHASE OBLIGATIONS, MATURING AFTER ONE YEAR	$ 202,525	$ 210,221
FUNDED DEBT OF UNITED DRUG COMPANY:		
Fifteen year 3¼% Sinking Fund Debentures due August 1, 1958:		
Authorized and issued in 1943	$20,000,000	...
Less — $527,000 in treasury available for 1944 sinking fund requirements and $140,000, retirement of which in 1944 through the sinking fund has been provided for under current liabilities	667,000	...
	$19,333,000	...
Twenty-five year 5% Debentures, originally due March 15, 1953, retired in 1943 — authorized and issued, less retired to December 31, 1942 and in treasury	...	$30,499,000
RESERVES:		
For maintenance of store fixtures and improvements	$ 195,706	$ 189,963
Reserves for possible losses and extraordinary expenses incident to contemplated post-war reconstruction of retail store chains	1,000,000	500,000
General reserves for other possible future losses and adjustments attributable to war conditions and other contingencies	1,300,000	965,000
Miscellaneous reserves and deferred income	97,248	44,316
	$ 2,592,954	$ 1,699,279
PREFERRED STOCK OF UNITED DRUG COMPANY, $4.75 CUMULATIVE (*Note 7*):		
Authorized and issued — 100,000 shares without par value, at stated value of $100 per share	$10,000,000	...
CAPITAL STOCK OF UNITED DRUG, INC. AND CONSOLIDATED SURPLUS:		
Capital stock:		
Authorized and issued — 1,400,560 shares, par value $5 each	$ 7,002,800	$ 7,002,800
Capital surplus — per accompanying statement	392,305	588,319
Earned surplus since September 1, 1933 (*Note 8*) — per accompanying statement	12,096,456	13,303,619
	$19,491,561	$20,894,738
Less — Capital stock of United Drug, Inc. acquired and held by United Drug Company for corporate purposes — 48,977 shares in 1943 and 48,976 shares in 1942, at cost	529,490	529,477
	$18,962,071	$20,365,261
	$69,062,975	$67,231,591

(ying notes to financial statements)

UNITED DRUG, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDING DECEMBER 31, 1943

(WITH COMPARATIVE FIGURES FOR 1942)

	Year ending December 31, 1943	1942
Sales, less returns, allowances and discounts	$138,913,407	$121,997,977
Cost of sales, selling, general and administrative expenses (*including depreciation of $1,359,316 in 1943 and $1,339,775 in 1942*)	125,032,304	110,664,505
Profit from operations	$ 13,881,103	$ 11,333,472
Other income:		
Income from investments	$ 55,941	$ 26,814
Interest on notes receivable, etc.	20,807	35,904
Miscellaneous (*net*)	50,502	12,458
	$ 127,250	$ 75,176
	$ 14,008,353	$ 11,408,648
Other charges:		
Interest and amortization of expense on debentures	$ 1,350,332	$ 1,603,641
Other interest	11,457	14,557
Loss from operation of guaranteed leases	124,824	283,958
Payments made in consideration of cancellation or modification of certain guaranteed leases	1,386,000	1,160,546
Cost of leaseholds, etc. purchased during the year	86,428	...
Plant moving and rearrangement expenses, etc.	153,662	94,716
Provision for estimated Federal and Canadian taxes on income (*Note 5*):		
Federal normal income tax and surtax	883,000	1,625,000
Federal excess profits tax (*less debt retirement credit of $620,000 in 1943 and $375,000 in 1942 and, in 1943, before reduction for tax saving of $735,000 reflected in earned surplus*)	6,315,000	3,375,000
Canadian income and excess profits taxes	252,000	150,000
Provision for possible losses and extraordinary expenses incident to contemplated post-war reconstruction of retail store chains	500,000	500,000
Additions to general reserves for other possible future losses and adjustments attributable to war conditions and other contingencies	335,000	300,000
	$ 11,397,703	$ 9,107,418
Net profit before dividends on preferred stock of subsidiary company	$ 2,610,650	$ 2,301,230
Deduct:		
Dividends paid or declared on preferred stock of United Drug Company — $2.37½ per share, less portion accrued prior to date stock was sold	225,625	...
Net profit for the year applicable to capital stock of United Drug, Inc., carried to earned surplus	$ 2,385,025	$ 2,301,230

(Reference is made to the accompanying notes to financial statements)

UNITED DRUG, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS EARNED SINCE SEPTEMBER 1, 1933 FOR THE YEAR ENDING DECEMBER 31, 1943

(WITH COMPARATIVE FIGURES FOR 1942)

	Year ending December 31, 1943	1942
Balance at beginning of year	$ 13,303,619	$ 10,882,412
Add:		
Net profit for the year applicable to capital stock of United Drug, Inc. — per accompanying statement	2,385,025	2,301,230
Decrease in unrealized exchange losses resulting from conversion of the accounts of the consolidated Canadian subsidiaries into U. S. dollars	11,745	52,063
	$15,700,389	$13,235,705
Deduct:		
Premiums paid (discount) on redemption or purchase of United Drug Company debentures, less, in 1943, Federal excess profits tax saving of $735,000 attributable thereto:		
5% debentures ($30,499,000 *principal amount in 1943 and* $2,001,000 *in 1942*)	$ 174,182	($ 67,914)
3¼% debentures ($527,000 *principal amount*)	533	...
Portion not charged to capital surplus, of underwriting discount or commission and expenses on issuance of preferred stock of United Drug Company	129,218	...
Reduction in carrying value of goodwill, trade-marks, etc. (*Note 4*)	3,300,000	...
	$ 3,603,933	($ 67,914)
Balance at close of year, carried to balance sheet (*Note 8*)	$ 12,096,456	$ 13,303,619

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1943

(WITH COMPARATIVE FIGURES FOR 1942)

	Year ending December 31, 1943	1942
Balance at beginning of year	$ 588,319	$ 588,319
Deduct:		
Portion of underwriting discount or commission and expenses on issuance of preferred stock of United Drug Company, charged to capital surplus to the extent of capital surplus considered available therefor	196,014	...
Balance at close of year, carried to balance sheet	$ 392,305	$ 588,319

(Reference is made to the accompanying notes to financial statements)

UNITED DRUG COMPANY

CONSOLIDATED BALANCE

(WITH COMPARATIVE FIGURES

ASSETS

	December 31, 1943	1942
CURRENT ASSETS:		
Cash in banks and on hand	$11,183,147	$12,025,722
United States Treasury Notes, tax series (*cost and face amount*)	4,000,000	2,000,000
Marketable securities and call loans (*value based on market quotations, approximately $689,000 in 1943 and $684,000 in 1942*)	633,833	648,953
Customers' accounts and notes receivable (*including $513,949 in 1943 and $916,352 in 1942 owing from United States Government departments*), less reserves of $575,594 in 1943 and $564,314 in 1942	4,979,650	5,088,743
Account receivable from United Drug, Inc., parent company	18,691	42,070
Miscellaneous accounts and notes receivable	695,348	434,042
Inventories of merchandise partly-finished stocks, materials and supplies — at cost or market whichever lower (*Note 3*)	29,152,868	24,133,877
TOTAL CURRENT ASSETS	$50,663,537	$44,373,407
INVESTMENTS AND ADVANCES, ETC.:		
Customers' non-current notes receivable and advances, less reserves	$ 50,003	$ 121,968
Miscellaneous advances, notes, claims and deposits, less reserves (*including $59,383 in 1943 and $57,708 in 1942 owing from employees, and including $7,697 in 1943 and $121,889 in 1942 owing from an affiliated company*)	246,418	324,852
Investments in and advances to wholly-owned English and South African subsidiaries, not consolidated (*book value of underlying net assets expressed in U. S. dollars, $496,263 in 1943 and $466,589 in 1942 — Note 2*)	331,211	330,007
Investment in capital stock of United Drug, Inc., parent company — 48,977 shares in 1943 and 48,976 shares in 1942, at cost	529,490	529,477
Miscellaneous investments, at or below cost, less reserves (*including investment of doubtful value in an affiliated company, carried at a nominal amount of $1*)	201,899	201,566
	$ 1,359,021	$ 1,507,870
PROPERTY ACCOUNTS — at cost, written down amounts, or appraisal valuations (*including store fixtures and improvements of retail companies at appraisal valuations determined in 1933, as approved by the directors, plus subsequent additions at cost*):		
Land, buildings and building fixtures	$ 8,956,099	$ 9,101,332
Machinery and equipment, etc.	8,682,298	8,608,360
Store fixtures and improvements, etc.	12,189,523	12,068,272
	$29,827,920	$29,777,964
Less — Reserves for depreciation	16,078,403	15,173,535
	$13,749,517	$14,604,429
DEFERRED CHARGES:		
Prepaid insurance, taxes, rent, etc. and advertising supplies	$ 687,208	$ 943,334
Unamortized expense on 3¼% debentures of United Drug Company	131,639	...
	$ 818,847	$ 943,334
GOODWILL, TRADE-MARKS, ETC. (*Note 4*)	$ 3,000,000	$ 6,300,000
	$69,590,922	$67,729,040

(Reference is made to the accompanying notes to financial statements)

AND SUBSIDIARY COMPANIES

SHEET — DECEMBER 31, 1943

AS AT DECEMBER 31, 1942)

LIABILITIES

	December 31, 1943	1942
CURRENT LIABILITIES:		
Accounts payable (*trade, etc.*) and accrued expenses	$10,047,182	$ 8,667,498
Accounts payable to United Drug, Inc., parent company	25,996	...
Real estate purchase obligations, maturing within one year	7,696	7,322
Accrued interest on debentures	263,697	444,777
Sinking fund payment due May 1, 1944 on 3¼% debentures of United Drug Company, less redemption value of treasury debentures available therefor	143,500	...
Preferred stock dividend payable February 1, 1944	118,750	...
Reserves for estimated Federal and Canadian income and excess profits taxes (*Note 5*)	7,386,181	5,334,315
TOTAL CURRENT LIABILITIES	$17,993,002	$14,453,912
REAL ESTATE PURCHASE OBLIGATIONS, MATURING AFTER ONE YEAR	$ 202,525	$ 210,221
FUNDED DEBT OF UNITED DRUG COMPANY:		
Fifteen year 3¼% Sinking Fund Debentures due August 1, 1958:		
Authorized and issued in 1943	$20,000,000	$ ...
Less — $527,000 in treasury available for 1944 sinking fund requirements and $140,000, retirement of which in 1944 through the sinking fund has been provided for under current liabilities	667,000	...
	$19,333,000	...
Twenty-five year 5% Debentures, originally due March 15, 1953, retired in 1943 — authorized and issued, less retired to December 31, 1942 and in treasury	$ ...	30,499,000
RESERVES:		
For maintenance of store fixtures and improvements	$ 195,706	$ 189,963
Reserves for possible losses and extraordinary expenses incident to contemplated post-war reconstruction of retail store chains	1,000,000	500,000
General reserves for other possible future losses and adjustments attributable to war conditions and other contingencies	1,300,000	965,000
Miscellaneous reserves and deferred income	97,248	44,316
	$ 2,592,954	$ 1,699,279
CAPITAL STOCK OF UNITED DRUG COMPANY AND CONSOLIDATED SURPLUS:		
Preferred stock, $4.75 cumulative (*Note 7*):		
Authorized and issued — 100,000 shares without par value, at stated value of $100 per share	$10,000,000	$ ...
Common stock:		
Authorized and issued — 140,056 shares, par value $50 each (all owned by United Drug, Inc.)	7,002,800	7,002,800
Capital surplus, less net deficit to December 31, 1933 — per accompanying statement	1,213,816	1,409,830
Earned surplus since December 31, 1933 (*Note 8*) — per accompanying statement	11,252,825	12,453,998
	$29,469,441	$20,866,628
	$69,590,922	$67,729,040

(Reference is made to the accompanying notes to financial statements)

UNITED DRUG COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDING DECEMBER 31, 1943

(WITH COMPARATIVE FIGURES FOR 1942)

	Year ending December 31, 1943	1942
Sales, less returns, allowances and discounts	$138,913,407	$121,997,977
Cost of sales, selling, general and administrative expenses (*including depreciation of $1,359,316 in 1943 and $1,339,775 in 1942 and, since May 31, 1943, $399,110 of administrative service charges by United Drug, Inc., for the most part in lieu of certain expenses borne in prior years by companies consolidated herein*)	125,026,314	110,594,073
Profit from operations	$13,887,093	$ 11,403,904
Other income:		
Income from investments	$ 55,941	$ 26,814
Interest on notes receivable, etc.	20,807	35,904
Miscellaneous (*net*)	50,502	12,458
	$ 127,250	$ 75,176
	$ 14,014,343	$ 11,479,080
Other charges:		
Interest and amortization of expense on debentures	$ 1,350,332	$ 1,603,641
Interest on advances by United Drug, Inc., parent company	...	1,570
Other interest	11,457	14,557
Loss from operation of guaranteed leases	124,824	283,958
Payments made in consideration of cancellation or modification of certain guaranteed leases	1,386,000	1,160,546
Cost of leaseholds, etc. purchased during the year	86,428	...
Plant moving and rearrangement expenses, etc.	153,662	94,716
Provision for estimated Federal and Canadian taxes on income (*Note 5*):		
Federal normal income tax and surtax	883,000	1,625,000
Federal excess profits tax (*less debt retirement credit of $620,000 in 1943 and $375,000 in 1942 and, in 1943, before reduction for tax saving of $735,000 reflected in earned surplus*)	6,315,000	3,375,000
Canadian income and excess profits taxes	252,000	150,000
Provision for possible losses and extraordinary expenses incident to contemplated post-war reconstruction of retail store chains	500,000	500,000
Additions to general reserves for other possible future losses and adjustments attributable to war conditions and other contingencies	335,000	300,000
	$ 11,397,703	$ 9,108,988
Net profit for the year, carried to earned surplus	$ 2,616,640	$ 2,370,092

(Reference is made to the accompanying notes to financial statements)

UNITED DRUG COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS EARNED SINCE DECEMBER 31, 1933 FOR THE YEAR ENDING DECEMBER 31, 1943

(WITH COMPARATIVE FIGURES FOR 1942)

	Year ending December 31, 1943	1942
Balance at beginning of year	$ 12,453,998	$ 9,963,929
Add:		
Net profit for the year — per accompanying statement	2,616,640	2,370,092
Decrease in unrealized exchange losses resulting from conversion of the accounts of the consolidated Canadian subsidiaries into U. S. dollars	11,745	52,063
	$ 15,082,383	$ 12,386,084
Deduct:		
Dividends paid or declared on preferred stock of United Drug Company — $2.37½ per share, less portion accrued prior to date stock was sold	$ 225,625	$ ...
Premiums paid (discount) on redemption or purchase of United Drug Company debentures, less, in 1943, Federal excess profits tax saving of $735,000 attributable thereto:		
5% debentures ($30,499,000 *principal amount in 1943 and* $2,001,000 *in 1942*)	174,182	(67,914)
3¼% debentures ($527,000 *principal amount*)	533	...
Portion not charged to capital surplus, of underwriting discount or commission and expenses on issuance of preferred stock of United Drug Company	129,218	...
Reduction in carrying value of goodwill, trade-marks, etc. (*Note 4*)	3,300,000	...
	$ 3,829,558	($ 67,914)
Balance at close of year, carried to balance sheet (*Note 8*)	$ 11,252,825	$ 12,453,998

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1943

(WITH COMPARATIVE FIGURES FOR 1942)

	Year ending December 31, 1943	1942
Balance at beginning of year	$ 1,409,830	$ 1,409,830
Deduct:		
Portion of underwriting discount or commission and expenses on issuance of preferred stock of United Drug Company, charged to capital surplus to the extent of capital surplus considered available therefor	196,014	...
Balance at close of year, carried to balance sheet	$ 1,213,816	$ 1,409,830

(Reference is made to the accompanying notes to financial statements)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — BASIS OF CONSOLIDATION, ETC.

The accompanying consolidated financial statements of United Drug, Inc. and subsidiary companies include the accounts of United Drug, Inc., United Drug Company (*all of the common stock of which is owned by United Drug, Inc.*) and the domestic and Canadian subsidiaries (*all of which are wholly owned by United Drug Company*). The accompanying consolidated financial statements of United Drug Company and subsidiary companies include the accounts of the same companies with the exception of the parent holding company, United Drug, Inc. The English and South African subsidiaries of United Drug Company have been excluded from consolidation in both sets of financial statements and the investment therein is shown in one amount in the respective consolidated balance sheets.

As of December 31, 1943 the assets of United Drug, Inc. consisted of cash, $20,234, receivables from certain subsidiaries, $25,996, and its investment in the common stock of United Drug Company, carried on its books at $8,139,099. Its liabilities consisted of $18,691 owing to United Drug Company and miscellaneous accrued expenses of $5,419. The operations of United Drug, Inc., as a separate corporation, resulted in net losses carried to earned surplus of $5,990 in 1943 and $68,862 in 1942, representing the excess of administrative and corporate expenses incurred and assumed over intercompany service charges (*in 1943*) and intercompany interest (*in 1942*). For the portion of the year 1943 subsequent to May 31 United Drug, Inc. assumed certain additional administrative expenses previously borne by subsidiary companies and received additional revenue represented by charges to subsidiary companies for administrative services.

NOTE 2 — FOREIGN ASSETS AND EARNINGS

The following is a condensed statement of foreign assets and liabilities at December 31, 1943, expressed in U. S. dollars, of the Canadian subsidiaries combined and of the English and South African subsidiaries combined:

	Canadian subsidiaries combined (*assets and liabilities included in the consolidated balance sheets*)	English and South African subsidiaries combined (*carried as an investment in the consolidated balance sheets*)
Current assets	$2,535,870	$869,312
Current and other liabilities	586,820	406,448
Net	$1,949,050	$462,864
Fixed properties and other assets	813,710	33,399
Total (*excess of assets over liabilities*)	$2,762,760	$496,263

The consolidated net profit amounts set forth in the accompanying statements of profit and loss include $128,014 for 1943 and $131,994 for 1942, expressed in U. S. dollars, of undistributed earnings of the Canadian subsidiaries. Earnings of the unconsolidated English and South African subsidiaries, amounting to approximately $29,000 in 1943 and $32,000 in 1942, in U. S. dollars, have not been reflected in the accompanying consolidated statements of profit and loss except to the extent of $1,206 in 1943 and $1,893 in 1942 of dividends realized in U. S. dollars from the English subsidiary.

NOTE 3 — INVENTORIES

The inventories of the consolidated companies have been priced on the basis of cost or market whichever lower, after eliminating estimated intercompany profits included therein. In general, cost as applied to inventory valuation represents current actual cost or current average purchase or manufacturing cost computed under the "first in, first out" method.

NOTE 4 — GOODWILL, TRADE-MARKS, ETC.

In addition to reductions made in previous years, the balance sheet amount of consolidated goodwill, trade-marks, etc., was reduced $3,300,000 in 1943 by a charge to earned surplus without any implication that the item is not worth as much as, or more than, amounts at which it has formerly been carried.

NOTE 5 — RESERVES FOR ESTIMATED FEDERAL AND CANADIAN INCOME AND EXCESS PROFITS TAXES

Examinations have not yet been made by the U. S. Bureau of Internal Revenue of consolidated Federal income and excess profits tax returns filed for the year 1942 or of consolidated Federal excess profits tax returns for the years 1940 and 1941. The reserves provided for Federal taxes on income as at December 31, 1943 are considered to be reasonable and conservative in the light of the governing statutes and adequate to cover unpaid taxes which have accrued on earnings for the year 1943 and additional taxes, if any, for years prior thereto which may be assessed as a result of pending examinations, but the application to the consolidated companies of some of the provisions of the Federal tax laws and regulations is still uncertain.

NOTE 6 — RENEGOTIATION

Earnings on business with U. S. Government departments for the year 1943 are subject to renegotiation under the provisions of the "War Profits Control Act". The effect thereof on the financial statements for the year cannot now be determined and the statements are subject to this general reservation, although no material net adjustment is anticipated by officials of the companies. Renegotiation of government business prior to 1943 has been completed and the profits involved in such business have been determined by the Government not to be excessive.

NOTE 7 — PREFERRED STOCK

The holders of preferred stock of United Drug Company are entitled to receive $104 per share upon redemption or voluntary liquidation on or before August 1, 1951 or $100 per share upon involuntary liquidation, plus, in each case, any accrued unpaid dividends.

Also, under the terms of its Certificate of Incorporation, as amended on August 3, 1943, United Drug Company is obligated, under certain conditions, to "set apart on its books out of its surplus" on May 1, 1944 $250,000 as a "Purchase Fund" for the purchase of its preferred stock and to set apart an undetermined amount not in excess of $250,000 for the same purpose on each May 1 thereafter so long as any shares of preferred stock remain outstanding.

NOTE 8 — EARNED SURPLUS

The consolidated earned surplus of United Drug, Inc. and its subsidiaries covers the period since September 1, 1933, the approximate date of organization of United Drug, Inc. The balance thereof at December 31, 1943, $12,096,456, was represented by $126,084 of earned surplus of United Drug, Inc. and $11,970,372 of undistributed consolidated surplus earnings of United Drug Company and its subsidiaries since September 1, 1933, the latter amount being subject to certain dividend restrictions mentioned below.

The consolidated earned surplus shown in the balance sheet of United Drug Company and subsidiary companies covers the period since December 31, 1933, the approximate date of certain capital and surplus readjustments made on the books of United Drug Company. Under the terms of the indenture dated as of August 1, 1943 covering outstanding Fifteen Year 3¼% Sinking Fund Debentures of United Drug Company, approximately $1,146,000 only of the December 31, 1943 consolidated earned surplus balance of $11,252,825 was available for distribution to the parent company, United Drug, Inc., in the form of dividends on common stock of United Drug Company. This available amount of approximately $1,146,000 represents the "consolidated net income", as defined in the indenture, of United Drug Company and its subsidiaries since May 31, 1943, less dividends paid or declared thereafter on the company's preferred stock. The surplus account of United Drug Company is also subject to the preferred stock "purchase fund" provisions referred to in Note 7.

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